

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04 OPIC-06

CIEP-02 LAB-04 SIL-01 OMB-01 /098 W

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 4013

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E.O. 11652: N/A

TAGS: EFIN, IS

SUBJECT: PRESS COMMENT ON REVISED BUDGET

REF: TEL AVIV 8140

1. IN ADDITION TO PRESS COMMENT REPORTED IN REFTEL, SEVERAL OTHER PAPERS ON DECEMBER 2 EXPRESSED VIEWS ON REVISED BUDGET.

2. HA'ARETZ (INDEPENDENT) FELT THAT THE REVISED PROPOSAL IS AN ELECTION YEAR TACTIC. THE NUMBER ONE PROBLEM OF THE ISRAELI ECONOMY, IT SAYS, IS THE BALANCE OF PAYMENTS, AND THE NUMBER TWO PROBLEM THE LACK OF ECONOMIC GROWTH. INFLATION TAKES ONLY THIRD PLACE. WHILE ALL THREE PROBLEMS ARE CONNECTED TO SOME DEGREE, AND A CURBING OF THE INFLATION RATE MIGHT MAKE IT POSSIBLE TO IMPROVE THE BALANCE OF PAYMENTS AND PERHAPS EVEN INDUCE ECONOMIC GROWTH, THE REVISED BUDGET PROPOSAL ENSURES NEITHER ONE NOR THE OTHER: INCREASED GROWTH WILL NOT BE ACHIEVED BECAUSE THERE IS NO PROVISION FOR ANY SIGNIFICANT INCREASE IN INVESTMENTS, NOR WILL THERE BE ANY IMPROVEMENT IN THE BALANCE OF PAYMENTS SITUATION BECAUSE NO REDUCTION IS PLANNED IN PUBLIC OR PRIVATE CONSUMPTION.

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3. DAVAR (HISTADRUT) SAID THE REVISED BUDGET WAS A FIRST STEP IN THE RIGHT DIRECTION. CURBING INFLATION HAS BEEN POSED AS A MAJOR GOAL FOR THE COMING YEAR. MOST OF THE BURDEN HOWEVER WILL AS USUAL BE IMPOSED ON THE WAGE-EARNERS. THE GOVERNMENT WILL DO VERY LITTLE IN THE WAY OF CUTTING ITS OWN EXPENSES. WAGE-EARNERS WILL BE REQUIRED TO FOREGO SALARY INCREMENTS, AND NATIONAL INSURANCE ALLOWANCES WILL COVER ONLY 70 PERCENT OF THE RISE IN THE COST OF LIVING, AS WILL INCOME TAX DEDUCTIONS. THESE PROVISIONS AMOUNT IN EFFECT TO AN EROSION IN THE TAX REFORM. BY CONTRAST, THE PROVISIONS IN THE BUDGET REGARDING A FOUR-MONTH FREEZE IN PRICES AND IN DIVIDEND INCREASES ARE VERY VAGUE, THERE IS NO PROVISION FOR TAXATION OF CAPITAL, AND THE PROPOSED REDUCTION IN THE LINKAGE OF BONDS IS TOO LITTLE, AND TOO LATE.

4. AL HAMISHMAR (MAPAM) STATED THAT, REVISED OR NOT, THE BUDGET FOR 1977 REFLECTS A POLICY OF ECONOMIC STAGNATION, UNCONTROLLED GROWTH IN PRIVATE CONSUMPTION, A MASSIVE RETREAT IN INVESTMENT FOR DEVELOPMENT, NO SIGNIFICANT IMPROVEMENT IN THE BALANCE OF PAYMENTS, FURTHER REGRESSIVENESS IN THE TAX SYSTEM AND INCREASED UNEMPLOYMENT. FURTHERMORE, THE DEFICIT WILL BE EVEN GREATER THAN THAT IN LAST YEAR'S BUDGET. THIS IS BECAUSE THE REDUCTION IN INCOME ANTICIPATED AS A RESULT OF THE FREEZE IN THE PRICE OF PART OF THE PUBLIC SERVICES AND THE FREEZE IN INDIRECT TAXES WILL NOT BE ACCOMPANIED BY ANY NEW FORMS OF DIRECT TAXATION SUCH AS A TAX ON FINANCIAL ASSETS.
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